



## Golf Course Valuation

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# Golf Course Valuation

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- IN Code 6-1.1-4-42 and 50 IAC 29
- Example
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# Golf Course Valuation

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- **IN Code 6-1.1-4-42 and 50 IAC 29:**
- **IC 6-1.1-4-42**

True tax value of golf course real property determined using income capitalization; information provided by golf course owners; uniform income capitalization tables; department of local government finance administration

Sec. 42.

(a) This section applies to assessment dates after January 15, 2010.



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(b) As used in this section, "golf course" means an area of land and yard improvements that are predominately used to play the game of golf. A golf course consists of a series of holes, each consisting of a teeing area, fairway, rough and other hazards, and the green with the pin and cup.

(c) The true tax value of real property regularly used as a golf course is the valuation determined by applying the income capitalization appraisal approach. The income capitalization approach used to determine the true tax value of a golf course must:



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- (1) incorporate an applicable income capitalization method and appropriate capitalization rates that are developed and used in computations that lead to an indication of value commensurate with the risks for the subject property use;
- (2) provide for the uniform and equal assessment of golf courses of similar grade quality and play length; and
- (3) exclude the value of personal property, intangible property, and income derived from personal or intangible property.



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(d) For assessment dates after January 15, 2010, and before March 1, 2012, a township assessor (if any) or the county assessor shall gather and process information from the owner of a golf course to carry out this section in accordance with the rules adopted by the Department of Local Government Finance under IC 4-22-2.

(e) For assessment dates after February 28, 2012, the department of local government finance shall, by rules adopted under IC 4-22-2, establish uniform income capitalization tables and procedures to be used for the assessment of golf courses. The



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Department of Local Government Finance may rely on analysis conducted by a state educational institution to develop the income capitalization tables and procedures required under this section. Assessing officials shall use the tables and procedures adopted by the department of local government finance to assess, reassess, and annually adjust the assessed value of golf courses.

(f) The Department of Local Government Finance may prescribe procedures, forms, and due dates for the collection from the owners or operators of golf courses of the necessary earnings, income, profits,



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losses, and expenditures data necessary to carry out this section. An owner or operator of a golf course shall comply with the procedures and reporting schedules prescribed by the Department of Local Government Finance .

*As added by P.L.182-2009(ss), SEC.89.*





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- **50 IAC 29-3-1 Duties of assessing officials**

Authority: IC 6-1.1-4-42

Affected: IC 6-1.1-4-42

Sec. 1. Assessing officials must use the procedures adopted by the department in this article to:

(1) assess;

(2) reassess; and

(3) annually adjust; the value of golf courses.

*(Department of Local Government Finance; 50 IAC 29-3-1; filed Aug 30, 2012, 2:00 p.m.: 20120926-IR-050120274FRA)*



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- **50 IAC 29-3-2 Exceptions to the valuation of golf courses**

Authority: IC 6-1.1-4-42

Affected: IC 6-1.1-4-42

Sec. 2. The value of personal property, intangible property, and income derived from personal or intangible property is excluded from the valuation of golf courses. Excluded from the income capitalization approach to valuation is income derived from pro shop merchandise sales and the income derived from the rental of golf carts.



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*(Department of Local Government Finance; 50 IAC 29-3-2; filed Aug 30, 2012, 2:00 p.m.: 20120926-IR-050120274FRA)*

- **50 IAC 29-3-3 Income capitalization**

Authority: IC 6-1.1-4-42

Affected: IC 6-1.1-35-9

Sec. 3.

(a) In assessing golf courses by means of the income capitalization method, an assessing official shall derive a value indication for income-producing property by converting the anticipated benefits of ownership of the property.



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(b) Through use of income capitalization, an assessing official shall rely on the economic principles of the following:

- (1) Anticipation.
- (2) Change.
- (3) Supply and demand and competition.
- (4) Substitution.
- (5) Balance and contribution.



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(c) Because a golf course may generate multiple sources of income, including greens fees, membership dues, and concessions, assessing officials shall solicit data for gross income and allowable operating expenses from the golf course operators and use federal tax returns or similar evidence as verification that the submissions are correct.



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(d) Assessing officials may examine multiple years of financial records and federal tax returns, up to and including the most current financial records and federal tax returns of the taxpayer as of March 1 of the year of assessment, to ensure that the appropriate income and expense information for the subject property is utilized. Under IC 6-1.1-35-9, all income and expense information provided to the assessing official is confidential. *(Department of Local Government Finance; 50 IAC 29-3-3; filed Aug 30, 2012, 2:00 p.m.: 20120926-IR-050120274FRA)*



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- **50 IAC 29-3-4 Income and expense statement**

Authority: IC 6-1.1-4-42

Affected: IC 6-1.1-4-42

Sec. 4. Income and expense information, which may include the following, should be arranged and evaluated by the assessing official in this order:

- (1) Gross income (potential gross income).
- (2) Miscellaneous income.
- (3) Effective gross income.



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- (4) The following allowable expenses:
- (A) Operating.
  - (B) Replacement reserves.
  - (C) Real estate taxes deducted under certain conditions.
  - (D) Management fees/expense.
  - (E) Insurance.
  - (F) Salaries.
  - (G) Benefits.
  - (H) Utilities.





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- (I) Advertising.
- (J) Repairs.
- (K) Supplies.
- (L) Legal and accounting fees.
- (M) Miscellaneous expenses.
- (5) The following non-allowable expenses:
  - (A) Depreciation (reflected in the recapture rate).
  - (B) Capital improvements.
  - (C) Franchise fees and special corporation costs.



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(D) Owner's personal expenses.

(E) Debt service (principal and interest on mortgage).

(F) Payments on loans for capital improvements.

(G) Real estate taxes not deducted as an expense under certain conditions (reflected in the effective tax rate).

*(Department of Local Government Finance; 50 IAC 29-3-4; filed Aug 30, 2012, 2:00 p.m.: 20120926-IR-050120274FRA)*



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- **50 IAC 29-3-5 Calculating value of property**

Authority: IC 6-1.1-4-42

Affected: IC 6-1.1-4-42

Sec. 5.

(a) In reliance on the golf course's income and expense information, the assessing official shall determine the valuation of the property through the following steps:

STEP ONE: Determine potential gross income.

STEP TWO: Add miscellaneous income.



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STEP THREE: Add the potential gross income to miscellaneous income to determine the effective gross income.

STEP FOUR: Deduct expenses and replacement reserves from the effective gross income to determine the net operating income.

STEP FIVE: Divide the net operating income by the overall capitalization rate to determine the assessed value.



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(b) For golf courses for which detailed income and expense information is unavailable, information such as ordinary income, depreciation, interest expenses, entertainment (if any), and golf cart income (less expenses) shall be utilized to determine the assessed value.

*(Department of Local Government Finance; 50 IAC 29-3-5; filed Aug 30, 2012, 2:00 p.m.: 20120926-IR-050120274FRA)*



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- **50 IAC 29-3-6 Capitalization rate**

Authority: IC 6-1.1-4-42

Affected: IC 6-1.1-4-42

Sec. 6.

(a) The overall capitalization rate expresses the relationship between net operating income and the market value of the property and shall be developed using the following:

- (1) Market extraction.
- (2) Effective tax rate.
- (3) Mortgage and equity.



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(4) Discounted cash flow.

(b) The department may disseminate the overall capitalization rate, based on market verifiable information, for each county annually.

*(Department of Local Government Finance; 50 IAC 29-3-6; filed Aug 30, 2012, 2:00 p.m.: 20120926-IR-050120274FRA)*

*\* For March 1, 2013 – see*

[http://www.in.gov/dlgf/files/130311 -  
Wood Memo - Golf Course Guidance.pdf](http://www.in.gov/dlgf/files/130311_Wood_Memo_-_Golf_Course_Guidance.pdf)



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- **50 IAC 29-3-7 True tax value and zero or negative assessments**

Authority: IC 6-1.1-4-42

Affected: IC 6-1.1-4-42

Sec. 7. Where there is a negative net operating income, therefore, producing an assessed value of zero (0), the assessing official shall first ensure that all income and expense information is accurate. Where, despite a review of the information, the assessed value is still negative or zero (0), the assessing official shall





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determine the market value-in-use that results in a liability of five percent (5%) of the adjusted gross income, as illustrated by the following example:

Assuming a 12% Overall Capitalization Rate

Assuming \$300,000 in Expenses

Gross Income = \$500,000

Less Golf Cart Income = <\$150,000>

Less Pro Shop Income = <\$50,000>

Adjusted Gross Income = \$300,000

Less Expenses = <\$300,000>



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Net Operating Income = \$0

Multiply Adjusted Gross Income by 5% =  
 $\$300,000 \times 5\% = \$15,000$

Divide above result by 12% Overall

Capitalization Rate =  $\$15,000 / 12\% = \$125,000$

Assessed Value

*(Department of Local Government Finance; 50 IAC  
29-3-7; filed Aug 30, 2012, 2:00 p.m.: 20120926-IR-  
050120274FRA)*



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- **50 IAC 29-3-8 Assessed value from base capitalization rate and net operating income**

Authority: IC 6-1.1-4-42

Affected: IC 6-1.1-4-42

Sec. 8. When using the income capitalization approach, the assessed value of real property is found by dividing the net operating income by the overall capitalization rate. The following table, which is for illustrative purposes only and does not reflect all possible scenarios, shows



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assessed values rounded to the nearest one hundred dollars (\$100), where an assessed value (AV) is given where the column for a net operating income (NOI) amount intersects with the row for an overall capitalization rate:



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## Capitalization Rate Table

Overall

Capitalization Rate	NOI \$20,000	NOI \$40,000	NOI \$60,000	NOI \$80,000	NOI \$100,000
8%	AV \$250,000	AV \$500,000	AV \$750,000	AV \$1,000,000	AV \$1,250,000
9%	AV \$222,200	AV \$444,400	AV \$666,700	AV \$888,900	AV \$1,111,100
10%	AV \$200,000	AV \$400,000	AV \$600,000	AV \$800,000	AV \$1,000,000
11%	AV \$181,800	AV \$363,600	AV \$545,500	AV \$727,300	AV \$909,000
12%	AV \$166,700	AV \$333,300	AV \$500,000	AV \$666,700	AV \$833,300

*(Department of Local Government Finance; 50 IAC 29-3-8; filed Aug 30, 2012, 2:00 p.m.:  
20120926-IR-050120274FRA)*



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- If an assessor cannot obtain income and expense information for golf courses in their jurisdiction, to derive a value, prior year information may have to be used.
- Other resources, such as appraisals, which may contain information like capitalization rates, may be used in the process to derive an estimated value.



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- Although each situation is different, great deference is given to local control. In other words, the assessing official will make a determination on what the assessed value should be placed on the property.
- If a zero or negative assessment exists, the assessor should first carefully review the financial information to ensure that all income and expense information is accurate, and also review the capitalization rate.



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- Additionally, as part of the annual adjustment process, each assessment year stands on its own. The assessor should review the income and expense information (if available) to determine if a change is warranted, and not simply carry-over the assessed value from year to year.





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- The DLGF has provided guidance on golf course valuation issues:
- <http://www.in.gov/dlgf/files/090817> - [Wood Memo - Valuation of Golf Courses - Legislative Changes.pdf](#)
- <http://www.in.gov/dlgf/files/091215> - [Wood Memo - Golf Course Valuation Guidance Supplement.pdf](#)
- [http://www.in.gov/dlgf/files/Golf Course DataCollection Sheet.xls](http://www.in.gov/dlgf/files/Golf%20Course%20DataCollection%20Sheet.xls); and
- <http://www.in.gov/dlgf/files/110505> - [Wood Memo - Golf Course Guidance.pdf](#)



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- [http://www.in.gov/dlgf/files/120315 Golf Course Guidance Memo.pdf](http://www.in.gov/dlgf/files/120315_Golf_Course_Guidance_Memo.pdf)
- [http://www.in.gov/dlgf/files/130311 - Wood Memo - Golf Course Guidance.pdf](http://www.in.gov/dlgf/files/130311_Wood_Memo_-_Golf_Course_Guidance.pdf)



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- The Income Capitalization approach is one of three approaches to the valuation of real property. The appraiser derives a value indication for income-producing property by converting the anticipated benefits through ownership of property. (Source: International Association of Assessing Officers – Course #102 “Income Approach to Valuation”).
- It is based on the economic principles of:
  - Anticipation
  - Change
  - Supply and demand and competition
  - Substitution
  - Balance and contribution



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Real estate competes with other investments for the investor's dollars. All investors want a return **on** their investment. All investors want a return **of** their investment.

- **"IRV"** – A Generic Capitalization Formula
- $I \text{ (income)} = \text{Rate} \times \text{Value}$
- $R \text{ (rate)} = \text{Income} / \text{Value}$
- $V \text{ (value)} = \text{Income} / \text{Rate}$



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- For example, a corner lot in a business district is used as a parking lot. The monthly income earned is \$4,000. The owner's required rate of return for this type of property is 5.0% per year. What is the value of this property?

Monthly Income	\$4,000
	<u>x 12</u>
Annual Income	\$48,000

IRV Formula:  $V = I/R$      $\$48,000/.05 = \$960,000$

Capitalization can be defined as the process to convert income into an estimate of value.



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- **Basis of Income:**

For a golf course, there may be several different sources of income, including green fees, membership dues, concessions, and other miscellaneous sources.

The assessing official should consider the entire “enterprise” of the golf course (with the exception of the previously mentioned golf carts and pro shop income and expenses) when determining the assessed value.



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- **Income and Expense Statement:**

Reconstructed from the owner's statement.

Format:

- Gross Income Estimate (potential gross income)
- Miscellaneous Income
- Effective Gross Income
- Allowable Expenses
  - Operating
  - Replacement Reserves
  - Real Estate taxes (deducted under certain conditions, for example, when calculating for property tax purposes)



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- **Allowable Expenses (continued):**
  - Management fees/expense
  - Insurance
  - Salaries
  - Benefits
  - Utilities
  - Advertising
  - Repairs
  - Supplies
  - Legal and Accounting Fees
  - Miscellaneous Expenses
  - Replacement Reserves





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- **Non-allowable expenses:**
  - Depreciation (reflected in the recapture rate)
  - Capital improvements
  - Franchise fees and special corporation costs
  - Owner's personal expenses (income taxes, etc.)
  - Debt service (principal and interest on mortgage)
  - Payments on loans for capital improvements
  - Real Estate taxes (not deducted as an expense under certain conditions – reflected in the effective tax rate).



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- Total Operating Expenses
- Replacement Reserves
- Total Expenses
  
- Net Operating Income



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## Income and Expense Statement for the “Par Excellence” Golf Course:

INCOME	2012	2011	2010	3-Year Average
Rounds Played	1100	950	850	
GOLF INCOME				
Green Fees	\$33,000	\$31,000	\$29,000	
Annual Golfing	\$82,000	\$76,000	\$73,000	
Member Dues				
Driving Range	\$12,750	\$9,500	\$8,000	
Miniature Golf Sales	\$9,300	\$6,800	\$6,000	
Club Storage	\$1,500	\$1,000	\$900	
Total Golf EGI	\$140,550	\$124,300	\$116,900	\$127,250



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## Income and Expense Statement for the Par Excellence Golf Course:

NON-GOLF INCOME	2012	2011	2010	3-Year Average
Pro Shop Sales	\$6,500	\$5,000	\$4,500	
Food & Beverage Sales	\$38,900	\$36,500	\$34,750	
Annual Non-Golfing	\$17,500	\$14,000	\$13,500	
Member Dues				
Other Income	\$1,500	\$1,100	\$900	
Total Non-Golf Income	\$64,400	\$56,600	\$53,650	\$58,217
Total Enterprise Income				\$185,467



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## Income and Expense Statement for the Par Excellence Golf Course:

GOLF EXPENSES	2012	2011	2010	3-Year Average
Course Maintenance	\$18,000	\$15,500	\$14,800	
Course Maintenance Salaries	\$29,500	\$26,700	\$24,500	
Irrigation	\$8,000	\$6,500	\$6,000	
Advertising/Promotion @ 50%	\$1,500	\$1,500	\$1,500	
Facilities Insurance @ 25%	\$4,000	\$4,000	\$4,000	
Management @ 10%	\$14,055	\$12,430	\$11,690	
Golf EGI				
Replacement Reserves @ \$2/round	\$3,300	\$2,850	\$2,550	
Total Golf Expenses	\$78,355	\$69,480	\$65,040	\$70,958



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## Income and Expense Statement for the Par Excellence Golf Course:

Non-Golf Expenses	2012	2011	2010	3-Year Average
Other Real Estate	\$5,500	\$4,000	\$3,800	
Maintenance				
Other Salaries	\$32,000	\$29,100	\$28,500	
Other Utilities	\$6,200	\$5,700	\$5,000	
Advertising/Promotion @ 50%	\$1,500	\$1,500	\$1,500	
Facilities Insurance @ 75%	\$12,000	\$12,000	\$12,000	
Cost of Pro Shop Sales	\$3,500	\$3,000	\$2,750	
Cost of Food/Beverage Sales	\$15,500	\$14,750	\$15,000	
Management @ 10% Non-Golf EGI	\$6,440	\$5,660	\$5,365	



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## Income and Expense Statement for the Par Excellence Golf Course:

	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>3-Year Average</b>
Total Non-Golf Expenses	\$82,640	\$75,710	\$73,915	\$77,422
Total Enterprise Expenses				\$148,380
Total Enterprise NOI				\$37,087
Capitalize @ 12%*				\$309,058
				\$309,100
Market Value In Use of Real Estate				\$309,100

\* Capitalization rate for illustrative purposes only.



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- **Capitalization Rate:**

Determining the Net Operating Income is a key determinant in establishing the value of a property in the income approach. The other key component that can have a significant effect on the total value of the property is the capitalization rate.

We will focus on the “Overall Capitalization Rate” (OAR) which expresses the relationship between net operating income and the market value of the property.





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## Capitalization Rate (continued):

It can be developed using the following:

- Market Extraction
- Effective Tax Rate
- Mortgage & Equity
- Discounted Cash Flow



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## **Capitalization Rate (continued):**

- Contrary to popular belief, the OAR is not always “10”! (Different classes of property will have different rates)
- The OAR reflects risk, liquidity (or lack thereof), potential for growth in net income, and general requirements of the investor.
- To determine the value of the property (simplistically), divide the Net Operating Income by the Overall Rate.



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- **Par Excellence Golf Course:**

For example (using our previous NOI):

- \$37,087 divided by a 8% OAR = \$463,588
- \$37,087 divided by a 10% OAR = \$370,870
- \$37,087 divided by a 14% OAR = \$264,907



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So now that we know the capitalization rate can have a significant impact on the value of the property, what other things can make a difference?

- Replacement Reserves: This allows a fund to be collected to replace items that will wear out. For example, an apartment complex may establish a replacement reserve for the roof, furnace, water heater, carpet, etc. These items are deducted after the operating expenses (included in the total expenses).
- For a golf course, these items could possibly include a roof or carpeting for the clubhouse, a water heater, furnace, etc.
- The amount of income and expenses are the other things that will obviously have an impact on the bottom-line.



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- **Steps to Determine Value:**
  - Determine Effective Gross Income from Golf
  - Determine Non-Golf Income
  - Total Enterprise Income
  - Deduct Expenses and Replacement Reserve



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- **Steps to Determine Value (continued):**
  - Net Operating Income
  - Capitalize
  - Does one size fit all – not necessarily!



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